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BRITISH COLUMBIA TELEPHONE COMPANY
EIGHTY-FIFTH ANNUAL REPORT 1976

1976

PLATEAUS AND PROGRESS

Like the human organism which moves from plateau to plateau in the course of its development, an organization such as B.C. Tel must accept that, in the course of its corporate lifetime, its progress will not be demonstrated by a smoothly rising line.

The human, having achieved one plateau, must build on it the foundation of experience and capabilities required to attempt the next step upward. The corporation must do the same and, like its human counterpart, may experience growing pains in the process of building that foundation.

A giant upward step in growth, spanning a decade, has brought B.C. Tel to a new plateau which commands a far-reaching forward view, a clearer indication of the road above.

During this period of extremely rapid growth, the Company's attitude was, of necessity, one of response. Great efforts and energies were required just to put in place the plant required to accommodate the needs of a thriving economy and a fast-growing population. Company action was heavily influenced by the residual demands of the past which, to some extent, limited our ability to implement our long term plans for the future.

Now, speaking in the broadest possible terms, we have reached a position from which we can direct our attention to the future, knowing that our energies and assets can be legitimately focused on the way ahead, rather than the path behind.

We have had our share and more of growing pains en route. We are not, as this Report reveals, completely free of them, nor shall we ever be. But we can bear the discomforts, recognizing they are temporary and with the assurance that we have reached a solid base – the foundation we require for our progress upward to the next plateau.

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BRITISH COLUMBIA TELEPHONE COMPANY

Incorporated by Special Act of the Parliament of Canada, April 12, 1916

EIGHTY-FIFTH ANNUAL REPORT 1976

THE REPORT AT A GLANCE

	1976	1975
FINANCIAL		
Revenues, Expenses and Earnings		
Operating revenues	**$ 435,839,000**	$360,687,000
Operating expenses	**$ 349,041,000**	$286,070,000
Earnings before interest and other deductions	**$ 96,492,000**	$ 81,274,000
Invested Capital		
Average invested capital	**$1,080,248,000**	$942,779,000
Return on average invested capital	**8.93%**	8.62%
Ordinary Shares		
Share earnings	**$ 27,785,000**	$ 26,859,000
Earnings per share	**$ 1.48**	$ 1.43
Dividends declared per share	**$ .96**	$ .84
Equity per share	**$ 13.19**	$ 12.70
Average shares outstanding	**18,832,713**	18,832,245
Gross Plant Additions	**$ 301,385,000**	$230,241,000
OTHER		
Telephones in service	**1,543,310**	1,473,183
Telephone gain for the year	**70,127**	89,981
Number of employees	**13,749**	13,122

REPORT OF DIRECTORS

Gordon F. MacFarlane
Chairman and Chief Executive Officer

On March 29, 1976, J. Ernest Richardson resigned as Chairman of British Columbia Telephone Company and was succeeded by Basil A. Beneteau who became Chairman, President and Chief Executive Officer. Mr. Richardson resigned to become Chairman of the Board of MacMillan Bloedel Limited and remains a director of B.C. Tel.

At a meeting of the Board of Directors of British Columbia Telephone Company held in Vancouver, British Columbia on February 10, 1977, Gordon F. MacFarlane, formerly President and Chief Executive Officer of GTE Automatic Electric (Canada) Ltd., was elected Chairman and Chief Executive Officer of British Columbia Telephone Company, succeeding Basil A. Beneteau whose resignation was accepted, with regret, by the Board. Mr. Beneteau has joined Northern Telecom Limited in a senior position.

Before joining GTE Automatic Electric (Canada) Ltd. last year, Mr. MacFarlane had been with B.C. Tel for twenty-six years, most recently as Vice-President – Administration.

"THE RESPONSIBILITY, THE OBLIGATION, THE ESSENTIAL PURPOSE OF THIS COMPANY IS TO SERVE OUR CUSTOMERS, OUR EMPLOYEES AND OUR SHAREHOLDERS.

TO SERVE, WE MUST BUILD.

TO BUILD, WE MUST EARN.

OUR COMPANY IS COMMITTED TO THESE OBJECTIVES."

The year 1976 demonstrated once again, and conclusively, that of all the factors which come into play in determining the continuing progress of this Company, it is our outside environment — the general economy — which is paramount.

British Columbia's economy in 1976, like that of the balance of the country, was, at best, weak. This lack of vigour had consequences for B.C. Tel.

A lull in business activity can mean a slowdown in the growth of long distance calling. A change in migration and immigration patterns in reaction to economic conditions in the province can mean a change in the volume and pattern of telephone installations.

We did witness these changes in 1976. However, we anticipate a return to a more buoyant, vigorous economy and, during 1976, we continued to put in place and plan for the facilities and services such an economy will require.

FINANCIAL PERFORMANCE

Although the financial results for 1976 show an improvement over those of 1975, they remain disappointing. The Company had, quite reasonably, anticipated a year in which much of the financial ground lost from 1973 into early 1975 might be regained and the firm footing required for the Company's essential long-range construction programs be attained.

The basis for the Company's expectations was sound. Its own cost-cutting and cost-limiting programs were proving effective; an aggressive marketing policy was in place and realistic objectives had been set and were being accomplished in the various areas of the Company's operations. Equally important was the fact that the Company had been granted a measure of much needed catch-up rate relief.

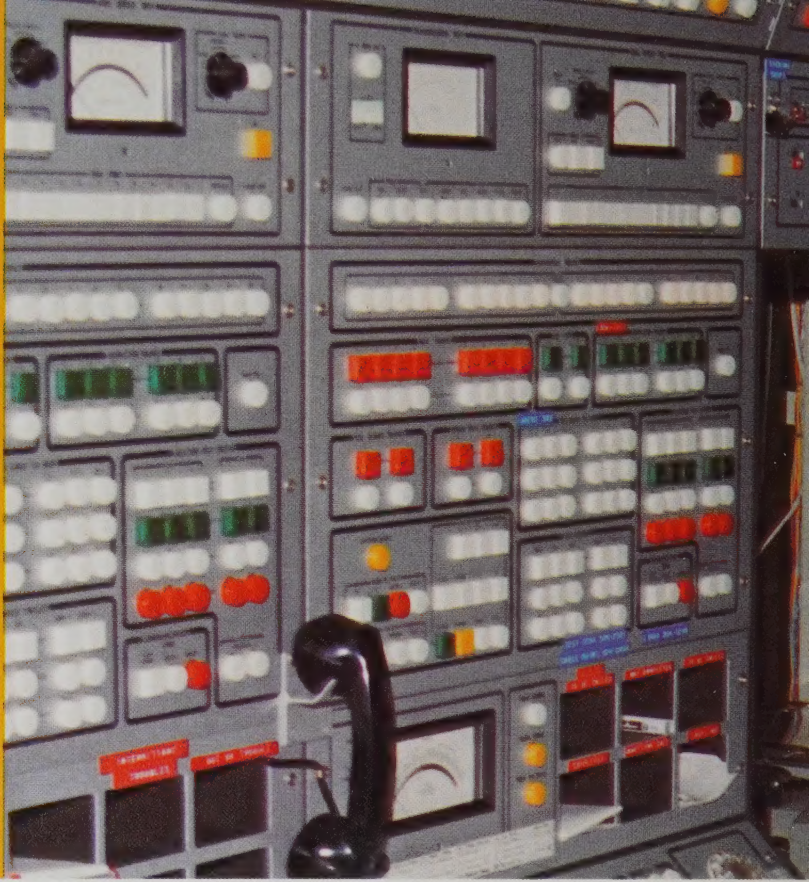
During the first half of the year these factors did, indeed, begin to produce results which compared favorably with those of previous years and indicated that the Company would reach another plateau on its road back to financial health.

Unfortunately, an uncontrollable and dominant factor, the general economy, failed to perform in accordance with the widely held expectations and predictions of improvement.

PROGRESS

The size and scope of the Company's overall operations multiplied by the complexity of the technologies we employ produces a total of activity which demands highly skilled employees at every level. To broaden the career horizons of its employees and to ensure best use of the equipment, the Company carries out continuing programs of training and retraining. These range across the full spectrum of the Company's activities and touch, at one time or another, practically every one of the 13,749 employees in the B.C. Tel system. Here, employees, having taken a preliminary course in electronic common control theory, face the practical and impressive reality of a Number 1 EAX, one of 20 electronic common control switching units of various sizes and capabilities installed or in the process of installation in the B.C. Tel system.

Ed Cummings
Russ Etherington
Dave Smallshaw
Warren Melville
Harvey Taggart



The result for this Company was a falling off in the rate of revenue growth. Our contractual labour and pension costs as well as the costs of servicing invested capital continued to reflect the high inflationary levels of the periods in which they were established.

During the third quarter, it became apparent the Company's expectations would not be realized. In order to limit the period and extent of this lower performance, the Company decided to seek a rate increase at the earliest possible date, a decision discussed in more detail under 'Regulation', below.

Earnings

Earnings for the year 1976 amounted to $1.48 per share compared with $1.38 before the extraordinary item of income of 5 cents per share recorded in the year 1975. While earnings for the year reflected some improvement over the prior year, they fell short of the Company's objectives.

The Company's return on its average invested capital for 1976 amounted to 8.93% compared with 8.62% in 1975. In both years the Company failed to achieve what the Canadian Transport Commission in its decision of November 3, 1975, described as an 'appropriate range of permissive rate of return on the total average capital' of the Company of between 9.5% and 10.0%.

The rate of return on average ordinary share equity came to 11.37% in 1976, below the 11.62% achieved in 1975. Again, the Company did not attain the range of from 14% to 15% to which the Canadian Transport Commission stated it 'would have no basic objection' in its November 3 decision on the Company's 1975 rate application.

There was a gain in overall revenues of 20.8% over 1975. However, in spite of the continuing attention to the problem of controlling costs, operating expenses were 22.0% higher than those of the previous year.

FINANCING

The Company raised approximately 52% of its 1976 capital requirements of $301.4 million from external sources of funds. Two debt issues and one equity issue were chosen as the most appropriate combination to attract the $157.6 million of outside capital required.

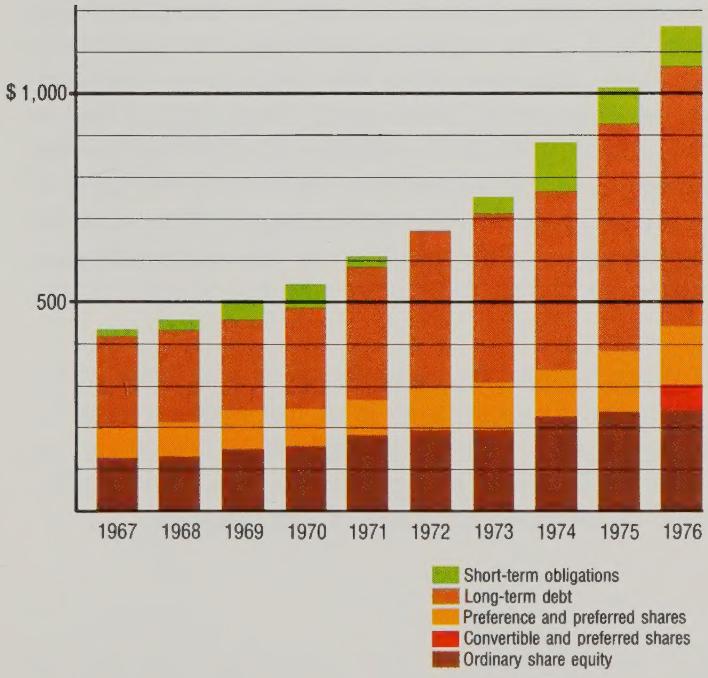
The Company issued a total of $90 million principal amount of first mortgage bonds including a $30 million U.S. private placement and the largest ($60 million) single first mortgage bond issue in the Company's history.

An equity issue of 2,354,030 $2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares with a par value of $25.00 per share was sold pursuant to an underwritten rights offering. The balance of the required funds was financed externally through demand loans and the sale of commercial paper.

On May 12, 1976, the Company announced that the quarterly dividend on its ordinary shares had been increased to 25 cents per share from 21 cents. The increased amount was reflected in the dividend paid July 1, 1976.

Details of these financing operations are contained in Notes to Consolidated Statement of Capitalization in the Financial Report.

CAPITAL STRUCTURE (Millions of dollars)



PROGRESS

In serving its customers with basic telephone service or through the provision of optional or discretionary equipment and services, B.C. Tel's operating philosophy is that of a marketing-oriented organization. Marketing courses, such as the one shown here, are as basic to the Company's progress as are courses in 'Pole Climbing' and 'Managing Human Resources'. The construction budget includes the cost of providing the familiar residential telephone sets, large private automatic branch exchanges and other complex subscriber equipment, as well as the labour and associated material required to connect such items of equipment to the Company's distribution network. In 1976, a total of $62.8 million was expended in these areas.

Bill Jones
Wes Karpow
Ron Raustad
Dave Lowry
Grant Lindsay
Bernie Dumonceau
Sue Carter
Bill Bird

REGULATION

As in 1975, regulation by government played a major role in the Company's affairs. Three government agencies, two federal and one provincial, had a direct influence on the management of the Company's business.

In April 1976, responsibility for the regulation of B.C. Tel passed from the Telecommunication Committee of the Canadian Transport Commission (CTC) to the Canadian Radio-television and Telecommunications Commission (CRTC).

Anti-Inflation Regulations

The Anti-Inflation Act provides for the restraint of prices, profit margins, dividends and employee compensation. The Act applies to the Company and its subsidiaries. However, the application of the Anti-Inflation Act with respect to prices and profit margins of B.C. Tel is the responsibility of the Canadian Radio-television and Telecommunications Commission.

Further complicating this overlapping of jurisdiction has been the Anti-Inflation Board's revision of regulations during 1976, regulations which affect the Company and which must be interpreted and applied by the CRTC. Although announced in May as imminent, the detailed revision of the regulations was not issued until November.

This delay seriously impeded the Company's preparation of its application for increased rates since the Company could not, responsibly, apply for increased rates without reasonable belief that the increases requested would enable the Company to comply with the regulations of the Anti-Inflation Board, as they might be interpreted by the Commission.

In connection with its previous (1975) rate application, the Company had experienced one result of what is, in effect, dual regulation. Although the Company was granted its request for increased rates in full by the November 3 decision of the then-regulatory body, the Canadian Transport Commission, the effect of the interpretation of the Anti-Inflation Guidelines by the Commission was to permit the implementation of only a portion of the increase in January, 1976, with the implementation of the balance of the award delayed until June 11, 1976, following a further review by the CTC.

The Company has observed the spirit and letter of the Anti-Inflation program and is of the opinion that the increases sought in its latest application, currently before the CRTC, will not place the Company in the position of being in violation of the program.

B.C. Tel Rate Application

On December 10, 1976, the Company applied to the CRTC for a general increase in its rates, with a requested date of implementation of May 1, 1977. The Company is requesting an increase of approximately 15% in most monthly charges and an increase of about 10% or up to five cents a minute on most direct-dialed long distance calls within British Columbia. The Company is also requesting a major restructuring of charges for service connections. The effect of these proposals, if implemented on the date requested, would be to produce estimated rates of return on average invested capital of 9.0% and on ordinary equity of 11.3% in 1977.

On the same date, December 10, the Company sought approval for an interim increase pending the Commission's decision on the main application. The Commission indicated that it would not proceed with the interim increase but that the main application would be proceeded with as quickly as possible with a public hearing possibly 'as early as the latter part of March'. At the time of writing, the date for the hearing has not been announced.

The Company considers that its decision to proceed with an application for increased rates was the only option open to it if it is to continue to operate in a prudent and responsible manner. Faced with a serious and growing impairment to its earnings, the Company determined that it must be neither dilatory nor defensive in seeking rate relief. The consequences of failing to do so would be to place in jeopardy the legitimate interests of our customers, our shareholders and our employees.

OK Tel Rate Decision

The third regulatory body whose actions affected the Company in 1976 was the Motor Carrier Commission of British Columbia, the body responsible for the regulation of Okanagan Telephone Company (OK Tel). In a decision of October 25, 1976, the Commission approved the application of June 3, 1976, for revised tariffs for OK Tel substantially comparable to those charged B.C. Tel subscribers for equivalent services, effective November 15, 1976.

PROGRESS

Employees monitor the Restoration Control Centre display panel which indicates conditions on the digital transmission inter-office network covering the populous Lower Mainland of British Columbia. In 1976, this Coastal Area received $142.8 million in construction funds to extend and improve service and meet customer demand. The Island Division was allocated $41.5 million, the Interior Division $32.5 million, the Northern Division $20.7 million and OK Tel $22.9 million. For the provision of Central Office equipment — dial, toll and radio — a total of $137.9 million was invested in the various regions of the Company's operating area.

Ted Pawlett
Bruce Marfleet
Charles Salski

ORGANIZATION

Initial steps have been taken to institute a new organizational plan which will enable the Company to focus more effectively on the provision of the best possible service to its customers and on the efficient management of the telephone network in the B.C. Tel system. The plan's objective is an improved response to the changing expectations of the Company's customers and its employees.

Executive Changes

Prior to the election of Gordon F. MacFarlane as Chairman and Chief Executive Officer of B.C. Tel, referred to at the outset of this Report, a restructuring of the Company's executive staff had taken place involving executive reassignments:

T. F. Heenan — Vice-President — Administration
R. H. Stevens — Vice-President — Customer Service
G. F. Auchinleck — Vice-President — Network Services
G. M. Smith — Vice-President — Revenue Requirements
J. A. MacInnes — Vice-President — Marketing

On April 28, 1976, Betty J. Rumford was elected Assistant Secretary.

OPERATIONS

One of the main characteristics of the telecommunications industry throughout the world has been continuous and significant growth. In B.C. Tel this growth has occurred in many ways — in the number of telephones, the number of central offices, the number of local and long distance calls placed and in the variety of services offered. Providing for this growth as well as for modernization requires heavy capital expenditures for additions to our physical facilities. Utilizing these facilities for the ultimate benefit of the customer requires a skilled and dedicated body of employees.

In 1976, expenditures on telephone plant and equipment totalled $301.4 million, an increase of approximately 30% over the amount spent in 1975, yet the resulting increased facilities were constructed, operated and maintained by an employee body which increased by less than 5%. This is a tribute to the continuing efforts of our employees to improve efficiency and an indication of the Company's success in controlling expenses.

The failure of the economy to recover more rapidly resulted in a slower growth in demand for the Company's services than had been forecast and was reflected in a reduction of some $25.0 million in construction expenditures originally budgeted for 1976.

Electronic Common Control Program

The greatest benefits to be realized in B.C. Tel's program of conversion to electronic common control switching equipment will be the significant containment of maintenance expense and the provision of telephone service with improved reliability and new service capabilities responsive to customer needs.

Of the Company's $301.4 million construction program in 1976, $56.7 million went toward the ECC program and toward meeting the Company's objectives of having 55% of its lines served by electronic offices by 1981.

The requirements of growth and the demands for new services increase the cost and complexity of the network. New technology must be introduced into the network to meet service commitments, to contain operating expenses and to ensure compatibility with the North American communications system, of which the B.C. Tel system forms an integral part.

New Headquarters Building

The Company's new 21 storey headquarters building in Burnaby is in the final stages of construction. The complex move of some 2,200 employees from twelve downtown office buildings in Vancouver into the new headquarters, without undue disruption of essential activities, is underway at the time of writing and will be completed by June. The cost of the building is being disbursed over the construction period with approximately $17.0 million expended in 1976.

PROGRESS

Audio-visual training devices are being used throughout the B.C. Tel system to teach employees new construction and installation techniques. In this simulated situation, a cable splicer has an Audiscan unit with him in the manhole. The hundreds of thousands of cable pairs are the infrastructure of the telephone system. Last year, $61.3 million went to the provision of underground and aerial cable, conduits, poles and associated materials. Meeting the growth of the system is a major part of every year's construction budget. Last year, 70,127 telephones were added to the B.C. Tel - OK Tel system for a total of 1,543,310 telephones in service.

Gary Rolls

EMPLOYEES

Labour Negotiations

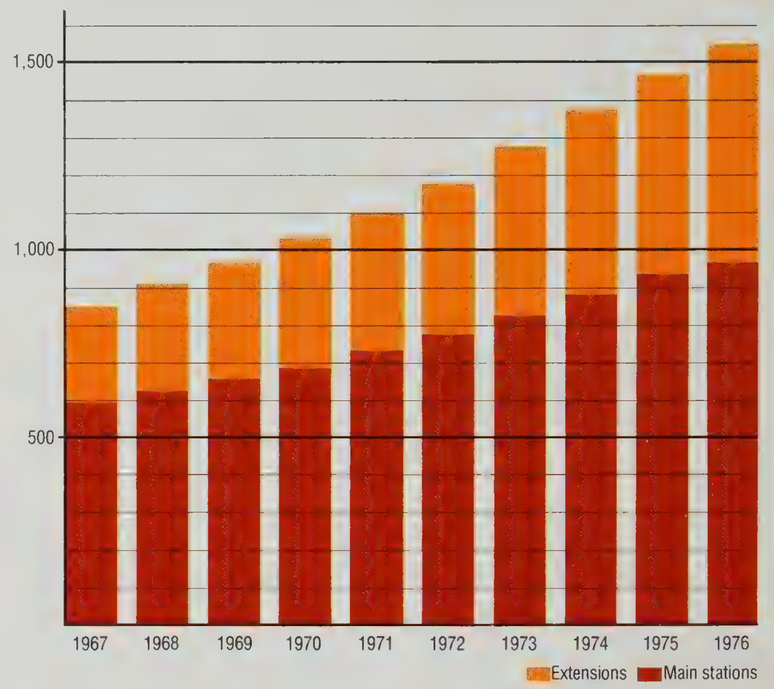
The latest labour agreement between the Company and the Federation of Telephone Workers of British Columbia expired December 31, 1976. An exchange of proposals in early October, 1976, between the Company and the Federation preceded negotiations which commenced in mid-October. The new agreement, when concluded, will be the first between the parties to come within the regulations set out by the Federal Anti-Inflation Board.

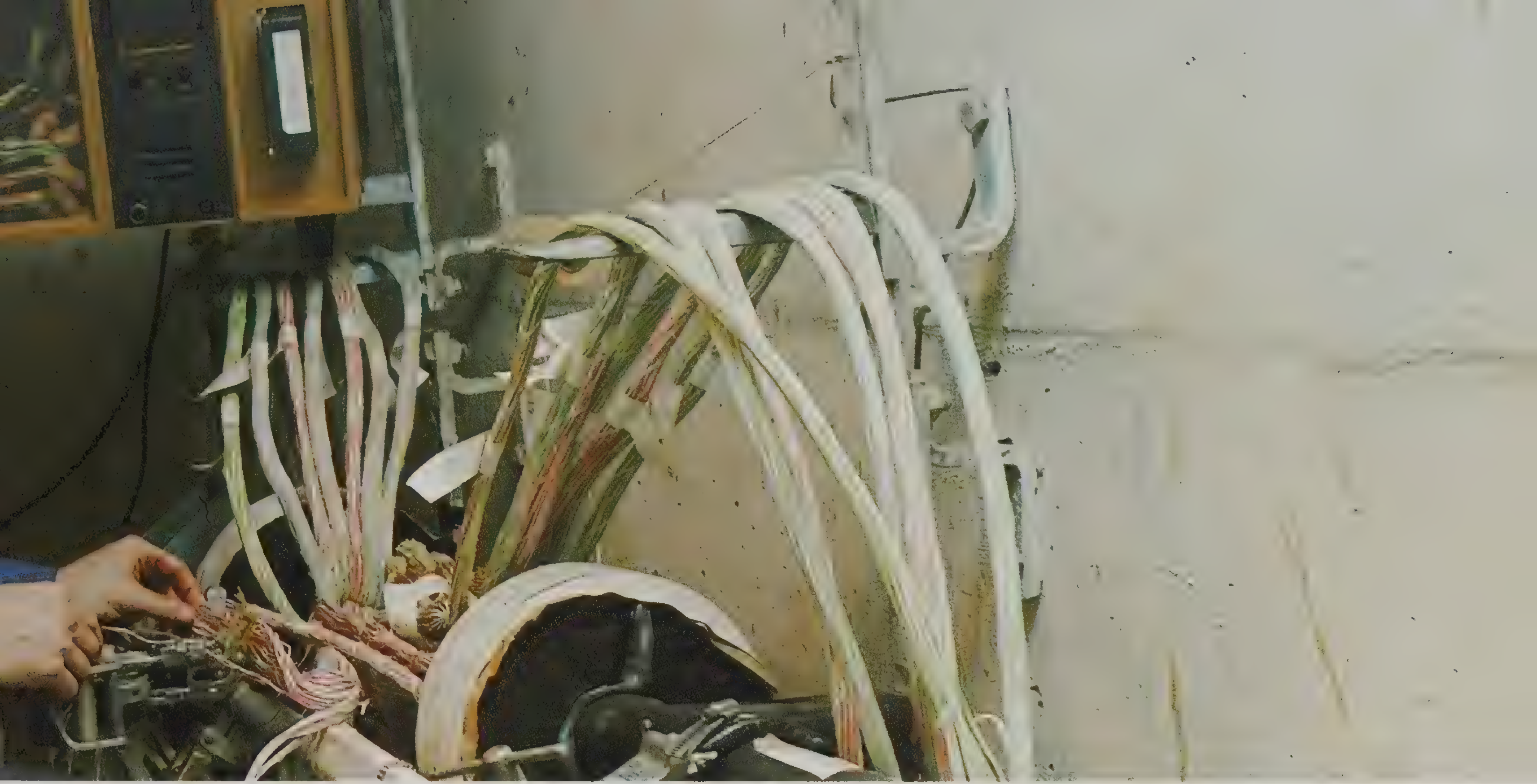
To facilitate settlement, conciliation under the provisions of the Canada Labour Act was requested by the Company in January. On February 9, 1977, Dr. Noel Hall was appointed as Conciliation Commissioner by the Federal Minister of Labour.

In the Community

In addition to the thousands of volunteer man and woman hours donated by Company employees to a wide variety of community and public service interests, financial donations pledged to the Telephone Employees Community Fund totalled more than $220,000 in the ten separate and autonomous campaigns conducted by employees. We are also proud to record that several employees were elected to public office on city councils, school boards and municipal councils.

TELEPHONES IN SERVICE (Thousands)





LOOKING AHEAD

At the time of writing, we are faced with three major uncertainties — the outcome of our application to the CRTC for increased tariffs, the outcome of the negotiations with our work force and the extent and rate of the province's economic recovery. The manner in which these uncertainties are resolved will give us a strong indication of what the immediate future holds for the Company.

However, we have dealt with temporary uncertainties in the past. We believe that the present ones will be constructively resolved and that we will be able to deal with future conditions in the best long-term interests of the Company's subscribers, shareholders and employees.

We are determined that the continuation of the Company's efforts to provide the best possible telecommunications service consistent with reasonable cost to our subscribers will not be interrupted through any lack of effort or initiative on the part of the Company.

There is much to do.

In order to ensure our ability to meet the service needs of our customers and safeguard the long-term health of the Company, we must plan for a continuing high level of capital expenditure. The efficient utilization of capital will, therefore, demand our closest attention.

Our debt-equity ratio remains far from satisfactory. If we are granted the full amount requested in our current application and, as a result, are able to carry out our plan for 1977 financing, we will be moving toward our medium-term objective of reducing our present debt ratio of approximately 62% (including short-term loans) to a more appropriate ratio of 55% by 1980. However, meeting our longer term objective of 50% debt will require more stable economic conditions externally, the most careful financial management internally and a regulator which appreciates the Company's requirement for improvement in its capital structure.

Our revenue growth will depend on demand for our services, on the introduction of new services and on a realistic regulatory climate.

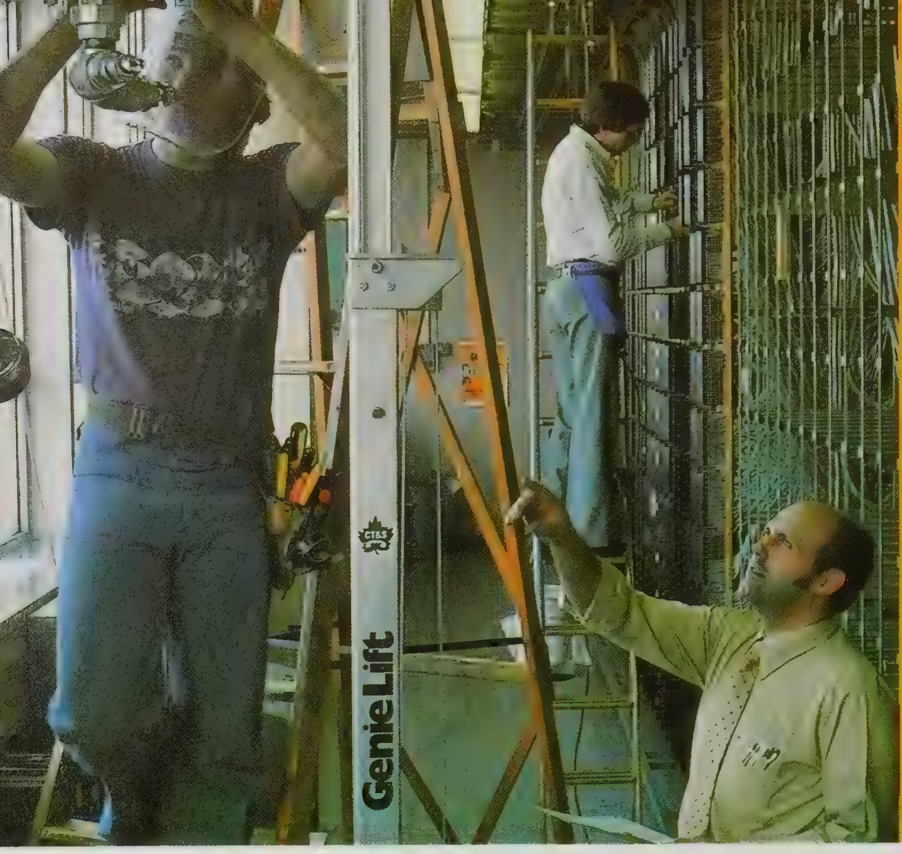
Profit growth reflects both revenue growth and our ability to control costs. Profit growth in one year will affect growth in future years since it determines the amount of money the Company must raise externally to expand and modernize its telephone plant and to meet the needs of our customers.

The responsibility, the obligation, the purpose of this Company is to serve its customers, its shareholders and its employees. To serve, we must build. To build, we must earn. Your Company is committed to these objectives.

On behalf of the Board of Directors,

G. F. MacFarlane

Gordon F. MacFarlane
Chairman and Chief Executive Officer
February 23, 1977



PROGRESS

To protect the safety of its employees who work in its buildings, to protect the very large capital investment these buildings represent and to protect its ability to provide vital telecommunications services, the Company is extending and modernizing its fire detection and suppression systems with units such as the Halon gas system being tested here — a part of a five-year $13 million program. In 1976, $34.0 million of the construction budget was allocated to the acquisition of land and the construction of the wide variety of buildings required by a modern telecommunications system.

Wayne Smith
Jack Jones
Gordie Miller

Basil A. Beneteau

On February 23, 1977, the Board of Directors passed a unanimous resolution which recognized, by a vote of gratitude, the contributions Mr. Beneteau had made to the Company.

The resolution said, in part, "Basil A. Beneteau has served this Company truly and well for a period of four years, first as a director from March, 1973, then as President from August, 1974, then as President and Chief Executive Officer from January, 1976 and finally as Chairman, President and Chief Executive Officer from March, 1976 until the date of his resignation.

"In each and all of these capacities he discharged his responsibilities in a manner which redounded to the credit of this Company. During a difficult and demanding time in the history of the Company, he delivered to the public, to his colleagues in the business community and to his fellow managers and employees a consistent, effective and unequivocal message of confidence in this Company and its future.

"His vigorous leadership in achieving realistic objectives has brought significant and beneficial results to this Company."

The resolution was passed on behalf of all the shareholders and all the employees of B.C. Tel.

FINANCIAL REVIEW

An examination of the Consolidated Statement of Earnings and Earnings Retained for Use in the Business on page 15 of this Report will reveal the Company's comparative financial results for this past year. For a further look at performance trends as they have developed over a more extended period, the reader is referred to the Consolidated Five-Year Record of Progress on pages 26 and 27.

Operating Revenues

The combination of a moderate increase in telephones in service and tariff increases approved in 1975 contributed to revenues totalling $435.8 million in 1976, or 20.8% more than in 1975. The increase was slightly more than revenue growth of 19.1% reported for 1975.

Local service revenues totalled $187.7 million in 1976 for a gain of 21.1% for the year. While a disappointing 4.8% growth in telephones during the year hampered normal revenue development, this was fortunately overcome by an approved tariff increase implemented in two stages, on January 1, 1976, and June 11, 1976. These increases provided the larger part of the overall $32.7 million improvement in local service revenues in 1976.

Toll service revenues in 1976 also benefited from the tariff adjustments noted above, resulting in a 21.0% revenue gain for the year despite a slackened 13.3% growth in long distance calling. A total of $235.8 million was generated from long distance services during 1976, compared with $194.9 million in 1975. Of the increase, totalling $40.9 million, nearly one-half was derived from approved tariff increases, including the effect of revised rates implemented on April 17, 1976, on calls between Canada and the United States.

Operating Expenses

Operating expenses, exclusive of depreciation and taxes, increased 21.8% in 1976 to a total of $207.9 million. Contributing to this increase were employee salaries and wages for the year and growth in pension expense, details of which are examined in Note 3 of the Notes to Consolidated Financial Statements.

Responding to the continuing influence of inflation on costs incurred during 1976, the Company imposed restraint on its expense outlays partly through lower than planned activity and, more importantly, through effective management and control of operational spending. It would be appropriate to emphasize that the tight control achieved over spending reflects the combined efforts of all employees and had a major positive impact on the financial results for 1976.

Taxes

Higher property assessments and increased mill rates were the major influences affecting provincial, municipal and other taxes in 1976, which totalled $22.1 million for the year or 24.7% more than in 1975. Federal and provincial income taxes increased by 17.3% to $35.9 million in 1976, a lesser degree of growth that reflects the Company's moderated profit growth for the year. Taxes in total constituted $3.20 of the monthly charge for the average telephone in service during 1976 as compared with $2.88 in 1975.

Return on Average Invested Capital

Earnings before interest and other deductions for 1976 amounted to $96.5 million. These earnings, which represent the Company's return on its average invested capital during the period, equalled an 8.93% return for the year 1976 compared with $81.3 million or an 8.62% return in 1975.

Interest and Other Deductions

Our sizeable debt financing program during the year is reflected in a 17.8% increase in total interest and other deductions, from $47.4 million in 1975 to $55.8 million in 1976. Due to continued high interest levels for the greater part of the year, both the new series of first mortgage bonds were issued at interest rates in excess of 10%; principal amounts issued totalled $90 million in comparison with $120 million of new bonds issued in 1975.

Ordinary Share Earnings and Return on Average Ordinary Equity

After payment of interest charges for the year, the Company's net earnings amounted to $40.7 million, as compared with $34.9 million in 1975 after the extraordinary item noted in that year. Preference and preferred dividends of $12.9 million in 1976 were considerably more than in 1975 due to increased preferred capital outstanding during the year, including the $2.32 convertible subordinate preferred shares issued in June, 1976. A balance of $27.8 million remained for ordinary shareholders or $1.48 per ordinary share, a slight improvement over the $26.9 million, after extraordinary item, or $1.43 per ordinary share earned in 1975. A return of 11.37% on average ordinary share equity in 1976 was, however, less than the 11.62% earned in 1975.

The quarterly dividend on ordinary shares was increased from $.21 to $.25 in the second quarter of 1976, thus providing shareholders with a dividend of $.96 for the year, compared with $.84 per share in 1975. Total ordinary dividends of $18.1 million in 1976 left a balance of earnings of $9.7 million which was retained for use in the business.

Accounting for Inflation

The accounts presented in this report are based on the accounting concept of historical cost. In periods of high inflation the concept of historical cost falls under attack as to its validity in expressing financial performance and proposals for methods which attempt to measure the effects of inflation are advocated. During 1976 the Canadian Institute of Chartered Accountants, and other professional accounting bodies, encouraged experiments with a concept of current value accounting. In 1977, British Columbia Telephone Company, together with other members of the Trans-Canada Telephone System, will commence experimentation with the accounting model with a view to seeking a value method appropriate to capital intensive regulated companies.

CONSOLIDATED STATEMENT OF EARNINGS AND EARNINGS RETAINED FOR USE IN THE BUSINESS

For the years ended December 31, 1976 and 1975

	1976	1975
	Thousands of Dollars	
Operating Revenues		
Local service	**$187,694**	$154,956
Toll service	**235,813**	194,905
Miscellaneous	**17,651**	15,289
Less — Uncollectible operating revenues	**(5,319)**	(4,463)
Total Operating Revenues	**435,839**	360,687
Operating Expenses		
Operations and administrative	**207,879**	170,733
Depreciation	**83,195**	65,914
Provincial, municipal and other taxes	**22,064**	17,694
Income taxes	**35,903**	31,729
Total Operating Expenses	**349,041**	286,070
Operating Earnings	**86,798**	74,617
Other income	**9,694**	6,657
Earnings Before Interest and Other Deductions	**96,492**	81,274
Interest and Other Deductions		
Interest on long-term debt and amortization of issue costs	**49,003**	42,185
Other interest charges	**6,773**	5,180
	55,776	47,365
Net Earnings, before Extraordinary item	**40,716**	33,909
Extraordinary item (Note 1)	**—**	973
Net Earnings	**40,716**	34,882
Less — Preference and preferred share dividends	**(12,931)**	(8,023)
Ordinary Share Earnings	**27,785**	26,859
Earnings Retained for Use in the Business		
Balance at Beginning of Year	**81,756**	71,516
	109,541	98,375
Less — Ordinary share dividends	**(18,079)**	(15,819)
Share issue expense	**(532)**	(800)
Balance at End of Year (Note 7)	**$ 90,930**	$ 81,756
Earnings per ordinary share (Note 1)		
— before Extraordinary item	**$1.48**	$1.38
— after Extraordinary item	**$1.48**	$1.43
— fully diluted, before Extraordinary item	**$1.45**	$1.38
— fully diluted, after Extraordinary item	**$1.45**	$1.43

CONSOLIDATED BALANCE SHEET

As at December 31, 1976 and 1975

ASSETS

	1976	1975
	Thousands of Dollars	
Telephone Plant, at cost		
— in service	**$ 1,581,602**	$ 1,386,028
— under construction	**145,965**	87,703
	1,727,567	1,473,731
Less — Accumulated depreciation	**(350,700)**	(310,303)
	1,376,867	1,163,428
Investments and Other Assets, at cost		
Telesat Canada	**3,300**	3,300
Other	**624**	957
	3,924	4,257
Current Assets		
Cash	**1,173**	1,564
Accounts receivable, net	**57,268**	66,226
Material and supplies, at cost	**15,995**	11,891
Prepayments	**5,281**	4,850
	79,717	84,531
Deferred Charges		
Unamortized cost of issuing debt securities	**9,220**	8,562
Other	**1,360**	1,982
	10,580	10,544
	$ 1,471,088	$ 1,262,760

Approved for Board of Directors,

G. F. MacFarlane, Director

V. F. MacLean, Director

CAPITALIZATION AND LIABILITIES

	1976	1975
	Thousands of Dollars	
Capitalization (per accompanying statement)		
Permanent and long-term		
Equity		
Ordinary shares	**$ 248,351**	$ 239,161
Convertible subordinate preferred shares	**58,834**	—
Preference and preferred shares	**142,400**	145,600
Minority interest in subsidiary	**455**	456
Long-term debt	**626,835**	549,120
	1,076,875	934,337
Short-term	**97,925**	86,670
Total Capitalization	**1,174,800**	1,021,007
Current Liabilities (excluding short-term capitalization)		
Accounts payable	**42,155**	31,674
Income taxes payable	**3,942**	136
Dividends payable	**7,884**	5,817
Accrued interest	**14,069**	11,851
Other accrued liabilities	**15,517**	12,366
Unearned revenues	**8,460**	7,444
	92,027	69,288
Income Taxes Deferred	**204,261**	172,465
Commitments (Notes 3 and 4)		
	$ 1,471,088	$ 1,262,760

CONSOLIDATED STATEMENT OF CAPITALIZATION

As at December 31, 1976 and 1975

	Redemption Premium	1976		1975	
		Thousands of Dollars			
CAPITALIZATION — PERMANENT AND LONG-TERM					
Equity					
Authorized Share Capital $1,250,000,000 (Note (a) (i))					
Ordinary Shares (Note (a) (ii))					
Ordinary shares without par value; 18,833,607 shares outstanding (1975—18,832,245 shares)		**$ 157,421**		$ 157,405	
Earnings retained for use in the business (Note 7)		**90,930**		81,756	
		248,351	**23%**	239,161	26%
$2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares					
Par Value of $25 Each (Notes (a) (ii) and (b))	—	**58,834**	**6%**	—	—
Cumulative Preference and Preferred Shares					
Par Value of $100 Each					
6% Preference	10%	**1,000**		1,000	
6% Preferred	5%	**4,500**		4,500	
4¾% Preferred	5%	**7,500**		7,500	
4¾% Preferred (Series 1956)	4%	**7,500**		7,500	
4½% Preferred	4%	**5,000**		5,000	
4⅜% Preferred	4%	**6,000**		6,000	
5¾% Preferred	4%	**10,000**		10,000	
5.15% Preferred	5%	**12,000**		12,000	
Par Value of $25 Each					
4.84% Preferred	4%	**20,000**		20,000	
6.80% Preferred (Not redeemable before June, 1978)	6%	**10,000**		10,000	
7.04% Preferred (Not redeemable before July, 1982)	7%	**20,000**		20,000	
8¾% Preferred (Note (b))	—	**11,900**		13,600	
10.16% Preferred (Note (b))	—	**27,000**		28,500	
		142,400	**13%**	145,600	15%
Minority Interest in Subsidiary		**455**	**—**	456	—

	1976		1975	
	Thousands of Dollars			
Long-term Debt (Note (b))				
British Columbia Telephone Company				
First Mortgage Bonds				
Series F 5% due April 1, 1982	**$ 25,000**		$ 25,000	
Series G 5¼% due November 1, 1983	**20,000**		20,000	
Series H 6% due September 15, 1984	**15,000**		15,000	
Series I 5¾% due August 1, 1985	**15,000**		15,000	
Series J 5¾% due July 15, 1986	**20,000**		20,000	
Series K 5⅝% due April 15, 1988	**20,000**		20,000	
Series L 6¾% due October 15, 1989	**30,000**		30,000	
Series M 6⅜% due March 15, 1991	**30,000**		30,000	
Series N 9⅛% due April 1, 1990	**3,263**		3,263	
Series O 9⅝% due November 15, 1992	**18,000**		18,000	
Series P 9⅛% due November 15, 1992 (Note (a) (iv))	**544**		12,000	
Series Q 8¼% due March 1, 1994	**35,000**		35,000	
Series R 7½% due November 15, 1978	**10,000**		10,000	
Series S 7⅞% due November 15, 1995	**25,000**		25,000	
Series T 8⅝% due October 15, 1993	**40,000**		40,000	
Series U 8⅛% due November 1, 1996 ($20 million U.S. funds) (Note (a) (v))	**19,809**		19,809	
Series V 9% due October 1, 1997	**40,000**		40,000	
Series W 8¾% due January 15, 1981	**11,000**		11,000	
Series X 9¼% due April 15, 1998	**35,000**		35,000	
Series Y 11% due January 15, 1996	**45,000**		45,000	
Series Z 8⅜% due April 1, 1980	**20,000**		20,000	
Series AA 10¼% due April 1, 1995	**30,000**		30,000	
Series AB 10¼% due December 1, 1981	**25,000**		25,000	
Issued in 1976 (Note (a) (iii)):				
Series AC 10½% due February 1, 1982-1996 ($30 million U.S. funds) (Note (a) (v))	**29,673**		—	
Series AD 10¼% due October 15, 2001	**60,000**		—	
Okanagan Telephone Company				
General Mortgage Sinking Fund Bonds due 1977 to 1986 at interest rates 5¾% to 6½% less current maturities and sinking fund requirements	**4,546**		5,048	
	626,835	**58%**	549,120	59%
Total Capitalization — Permanent and Long-term	**1,076,875**	**100%**	934,337	100%

	1976	1976
	Thousands of Dollars	
CAPITALIZATION — SHORT-TERM (Note (c))		
Amounts due for redemption within one year		
Equity (Note (b))		
8¾% Cumulative preferred shares par value of $25 each	**$ 1,700**	$ 1,700
10.16% Cumulative preferred shares par value of $25 each	**1,500**	1,500
Debt		
Okanagan Telephone Company		
General Mortgage Sinking Fund Bonds	**322**	—
	3,522	3,200
Short-term notes pending permanent financing		
Promissory notes at 8¼% to 9-3/10% interest	**53,793**	49,070
Bank demand loans at 9¼% interest	**40,610**	34,400
	94,403	83,470
Total Capitalization — Short-term	**97,925**	86,670
Total Capitalization	**$1,174,800**	$1,021,007

NOTES TO CONSOLIDATED STATEMENT OF CAPITALIZATION

(a) CHANGES IN CAPITALIZATION

(i) The Company is permitted, subject to directors' and shareholders' approval, to issue shares with or without par value up to the nominal amount of $1,250,000,000. As at December 31, 1976, the total share capital of the Company, as authorized by its bylaws, was $750,000,000.

(ii) On June 29, 1976, 2,354,030 $2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares with a par value of $25 each were issued. As at December 31, 1976, 681 such shares had been converted into 1,362 ordinary shares.

(iii) During 1976, additional long-term capital was obtained through the following issues:

— $30,000,000 (U.S.) First Mortgage Bonds, 10½% Series AC, due February 1, 1982-1996.

— $60,000,000 principal amount of First Mortgage Bonds, 10¼% Series AD, due October 15, 2001.

(iv) Pursuant to the prepayment provisions of the Series P Bonds, the Company prepaid $11,456,000 principal amount of such bonds on November 15, 1976.

(v) Series U and Series AC First Mortgage Bonds are reflected at the Canadian dollar equivalent on the date of issue. The respective liabilities would not be significantly different if they were based on the exchange rate as of December 31, 1976.

(b) SINKING FUND AND REDEMPTION REQUIREMENTS

The 8¾% preferred shares are subject to mandatory redemption at par value over a 10-year period, with $1,700,000 due on or before October 1 in each year, so as to completely retire the issue by October 1, 1984.

The 10.16% preferred shares are subject to (a) mandatory redemption at par value over a 20-year period with $1,500,000 due annually on September 1 until 1995, and (b) voluntary redemption at the option of the Company in any amount on and after September 1, 1980, at a premium of 5%, declining annually thereafter to par after September 1, 1985.

The $2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares are subject to (a) a purchase obligation requiring the Company to purchase in the open market, at a price not exceeding the par value, specified quantities of such shares to the extent that they are available in each 12-month period commencing June 30, 1981, and (b) voluntary redemption at the option of the Company, not before June 30, 1981, unless 2,000,926 of such shares have been converted, and at any time after June 30, 1981, at a premium of 8%, declining annually thereafter to par value after June 30, 1986.

The Deed of Trust and Mortgage of British Columbia Telephone Company requires either an annual sinking fund payment of 1% of the principal amount of its bonds outstanding or the pledge of additional unmortgaged property. The Company's policy is to use the latter alternative and accordingly does not make sinking fund payments. The Deed of Trust and Mortgage of Okanagan Telephone Company requires an annual sinking fund payment of 2% of the original principal sum of each issue and this requirement, together with the debt maturities of both companies during each of the next five years, is:

1977	$ 322,000
1978	10,657,000
1979	440,000
1980	20,833,000
1981	36,079,000

At December 31, 1976, the First Mortgage Bonds, except for Series P, R, W, Z and AB, are redeemable, other than for financial advantage, at premiums ranging from ½% to 10½%. The Series AC Bonds mature serially in the amount of $1,710,000 (U.S.) on February 1 in each of the years 1982-1995 and the remaining $6,060,000 (U.S.) matures on February 1, 1996. The Okanagan Telephone Company's General Mortgage Sinking Fund Bonds are callable at premiums ranging from 1% to 4¾%.

The Company's telephone plant is subject to the liens under the Deed of Trust and Mortgage under which the First Mortgage Bonds are issued.

(c) CAPITALIZATION — SHORT-TERM

Under this caption are listed all amounts of capitalization falling due for redemption within one year, sinking fund requirements and short-term indebtedness pending permanent financing.

The Company and its subsidiaries have announced plans for a construction program estimated to cost $311,000,000 for 1977, and that sum plus short-term repayment obligations of approximately $98,000,000 represent the Company's total financing requirements for the ensuing year. These requirements will be financed out of funds generated from operations (estimated at $140,000,000 for 1977) and from financing proceeds of additional issues of share capital and debt, with any balancing requirement to be met by short-term notes and bank loans. Such additional financing is subject to approval by the Canadian Radio-television and Telecommunications Commission with respect to share issues, and to interest earnings coverage ratios as required under the Deed of Trust and Mortgage for First Mortgage Bond issues. As of December 31, 1976, the Company had obtained no commitments for such financing. However, on February 15, 1977, the Company issued 1,600,000 7.0% preferred shares totalling $40,000,000 and applied the proceeds to the reduction of its short-term obligations as of that date.

Reference is also made to Note 7 to the consolidated financial statements with respect to Anti-Inflation legislation and its possible effect, if any, on the Company's earnings for 1977.

CONSOLIDATED STATEMENT OF SOURCE OF FUNDS USED FOR CONSTRUCTION

For the years ended December 31, 1976 and 1975

	1976	1975
	Thousands of Dollars	
Source of Funds		
From Operations		
Ordinary share earnings before extraordinary item	**$ 27,785**	$ 25,886
Add back (deduct) items not requiring funds		
Depreciation	**83,195**	65,914
Income taxes deferred	**31,796**	31,729
Allowance for funds used during construction	**(7,658)**	(4,802)
Other, net	**3,317**	2,260
	138,435	120,987
Less — Ordinary share dividends	**(18,079)**	(15,819)
	120,356	105,168
Income taxes deferred — prior periods (Note 1)	**—**	13,180
Extraordinary item (Note 1)	**—**	973
Decrease (increase) in working capital	**27,553**	(15,154)
Miscellaneous	**332**	651
	148,241	104,818
Financing proceeds, net of related costs and expenses		
Preferred shares	**58,318**	29,234
Long-term debt	**88,310**	117,638
Increase in short-term notes	**10,933**	7,603
	157,561	154,475
Less — Redemptions of preferred shares and long-term debt	**(14,836)**	(35,755)
	142,725	118,720
	$290,966	$223,538
Construction Expenditures		
Gross plant additions	**$301,385**	$230,241
Less — Salvage value of plant retired, net	**(2,761)**	(1,901)
— Allowance for funds used during construction	**(7,658)**	(4,802)
	$290,966	$223,538

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

EARNINGS PER ORDINARY SHARE

Earnings per ordinary share have been computed based on the average number of shares outstanding each month during the year and entitled to quarterly dividends declared. Fully diluted earnings per ordinary share reflect the potential full conversion of the $2.32 convertible subordinate preferred shares issued in June, 1976.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries; North-west Telephone Company and Canadian Telephones and Supplies Ltd. (together with its wholly-owned subsidiaries 70,074 Limited and Viscount Industries Ltd.) and Okanagan Telephone Company (99.9% owned).

The excess of the cost of shares of subsidiaries over the Company's equity at the date of acquisition is being amortized over a thirty-year period commencing in 1975 and amounted to $270,000 in 1976 (1975 — $253,000).

TELEPHONE PLANT

Telephone plant is recorded substantially at original cost and includes certain pension costs, payroll taxes and general overheads applicable to the construction activity. In addition, the Company capitalizes the cost of funds used to finance construction as a component of the cost of telephone plant, based on the size and duration of projects. The amounts of allowance for funds used during construction in 1976 and 1975 were $7,658,000 and $4,802,000, respectively, and are included in "Other income" in the Consolidated Statement of Earnings.

DEPRECIATION

Depreciation rates are determined by a continuing program of engineering studies for each class of telephone plant, according to year of placing in service. Depreciation provisions are calculated on a straight-line basis by applying such rates to the Company's telephone plant assets each month. The Company refined its depreciation method effective July 1, 1975, with respect to plant additions from that date forward. The refinement continues to develop depreciation provisions on a straight-line basis having regard to year of placing in service but subdivides each class into groups having equal service lives. A refinement in retirement practices relating to telephone disconnection activity was introduced, effective January 1, 1976, and had the effect of increasing depreciation expense by approximately $3,600,000 for the year. Including the effect of refinements, which are in conformity with prevailing practices in the Canadian Telecommunications industry, the composite depreciation rate was 5.79% (5.28% in 1975).

INCOME TAX

The Company claims as deductions, for income tax purposes, certain amounts in excess of expenses recorded in the accounts in respect of capital cost allowances, overhead costs applicable to construction activity and allowances for funds used during construction. The income tax provision relating to these timing differences is being deferred, except as related to the allowance for funds used during construction (see Telephone Plant above), for which no income tax provision has been included in rate submissions to the Canadian Radio-television and Telecommunications Commission. Income taxes reflected in the Consolidated Statement of Earnings, and currently payable, are $3,942,000.

In 1975 the Company received interest on income tax overpayments in the amount of $1,994,000, which is reported in the Consolidated Statement of Earnings as an extraordinary income item of $973,000, net of applicable income taxes. During 1975, Revenue Canada Taxation agreed to claims by the Company for additional timing differences relating to station connection costs, which resulted in an increase in income taxes deferred in the amount of $13,180,000.

OTHER DEFERRED CHARGES

At December 31, 1975, other deferred charges consisted of the cost of an appraisal of telephone plant of the Company and its subsidiary, Okanagan Telephone Company, as performed by a qualified independent engineering firm, and fees paid relative to amendments to the capital structure of the Company which occurred in 1974. The cost of appraisal is being amortized over five years, commencing January 1, 1975; the fees relative to amendment of the capital structure were refunded to the Company in 1976. Amortization for the year ended December 31, 1976, totalled $454,000 (1975 — $532,000).

CHANGES IN ACCOUNTING PRACTICES

As at January 1, 1976, the Company revised its practices with respect to the capitalization of general corporate overheads in accordance with accounting standardization policies of the Trans-Canada Telephone System companies. The revisions were introduced with the concurrence of the then regulatory body and were included in the allowable costs of the Company in the determination of its revenue requirement. The revisions have the effect of increasing total operating expense by ceasing to capitalize those costs which are not readily identifiable with, or vary directly with, construction of telephone plant.

2. Remuneration of Directors and Officers

During the year 11 directors of British Columbia Telephone Company received aggrerate remuneration of $61,000 as directors of the Company and its subsidiaries and 16 officers received aggregate remuneration of $865,000. None of the officers of British Columbia Telephone Company received remuneration from subsidiary companies.

3. Pension Plans

The Company and its subsidiaries have pension plans covering substantially all employees, subject to conditions related to age and period of service. The annual accrued pension costs are placed in trusteed funds, the value of which at December 31, 1976, and 1975 exceeded the benefits vested with the employees. The Company is governed by and complies with the Canada Pension Benefits Standards Act which contains provisions regarding the solvency of pension plans. The Act requires that actuarial studies be prepared at least every three years and that any experience deficiency in the plan must be funded over the succeeding five-year period. The most recent actuarial studies were prepared as at December 31, 1975, for the Company's Management Pension Plan, and December 31, 1974, for the Company's Bargaining Unit Pension Plan, which also provides for disability and death benefits.

As part of the Collective Agreement concluded in 1975, the Bargaining Unit Pension Plan was amended, effective December 31, 1974, and at that time the Company's unfunded past service liability with respect to this plan was eliminated. As part of the same Agreement, a new plan was started effective January 1, 1975, into which the Company contributes a fixed percentage of gross employee earnings without liability for the benefits payable.

The total pension costs charged to expense were $16,556,000 ($11,578,000 in 1975) which include $4,151,000 ($1,069,000 in 1975) for the amortization of past service and experience deficiencies. Based on the most recent actuarial valuations, the estimated unfunded liability under the Company's Management Pension Plan is $18,005,000 at December 31, 1976.

4. Commitments

CONSTRUCTION PROGRAMS

The Company and its subsidiaries have announced construction programs for additional telephone plant and facilities in 1977 which are estimated to cost $311,000,000, and substantial purchase commitments have been made in connection therewith.

LEASE OBLIGATIONS

Contractual obligations in respect of long-term leases of the Company and its subsidiaries amounted to $17,756,000 for real property and equipment at December 31, 1976; related rentals for the year then ended were $4,940,000 and the minimum amount applicable to the five years subsequent to December 31, 1976, is $14,496,000.

HEADQUARTERS BUILDING

70,074 Limited and John Hancock Mutual Life Insurance Company have entered into a commitment agreement for a first mortgage loan in the amount of $24,000,000 (U.S.). 70,074 Limited has paid a commitment fee of $240,000 (U.S.), which is refundable upon completion of the first mortgage loan agreement. The loan will bear interest of 11% per annum and be secured by the land and the British Columbia Telephone Company headquarters building currently in the final stages of construction thereon. Interim financing of construction is being provided by British Columbia Telephone Company.

5. Ordinary Shares Reserved

At December 31, 1976, 499,755 ordinary shares were reserved for exercise under the Company's Employee Share Purchase Plan; there are no options outstanding. An additional 4,706,698 ordinary shares remain reserved for the conversion of the $2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares.

6. Events Subsequent to December 31, 1976

On December 10, 1976, the Company applied to the Canadian Radio-television and Telecommunications

Commission for an order approving revisions to its tariffs. Public hearings in connection therewith are expected to be held in March, 1977.

On February 15, 1977, the Company issued $40,000,000 7% Cumulative Redeemable Preferred Shares, details of which issue are included in the Notes to Consolidated Statement of Capitalization.

7. Anti-Inflation Regulations

The Anti-Inflation Act of 1975 provides for the restraint of prices, profits, dividends and employee compensation. The Company and its subsidiaries are subject to the Act and the attendant regulations. The Act specifies that since the prices and profits of the Company are regulated by the Canadian Radio-television and Telecommunications Commission, the enforcement of the Act as to those aspects of restraint is the responsibility of that body. The Company has complied with all aspects of the Act and is of the opinion that it does not have excess revenues as determinable under the regulations of the Act and as they might be applied by the Commission.

AUDITORS' REPORT

To the Shareholders of
British Columbia Telephone Company

We have examined the consolidated balance sheet and related statement of capitalization of BRITISH COLUMBIA TELEPHONE COMPANY (incorporated under an Act of the Parliament of Canada) and subsidiaries as at December 31, 1976 and 1975, and the consolidated statements of earnings and earnings retained for use in the business and source of funds used for construction for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

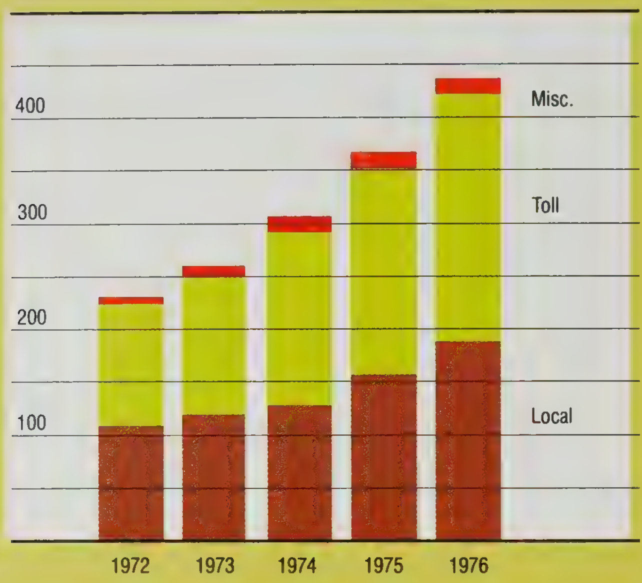
In our opinion, the accompanying consolidated financial statements present fairly the financial position of British Columbia Telephone Company and subsidiaries as at December 31, 1976 and 1975, and the results of their operations and the source of their funds used for construction for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Vancouver, Canada
January 31, 1977
(except with respect to the matters discussed in Note 6, as to which the date is February 15, 1977)

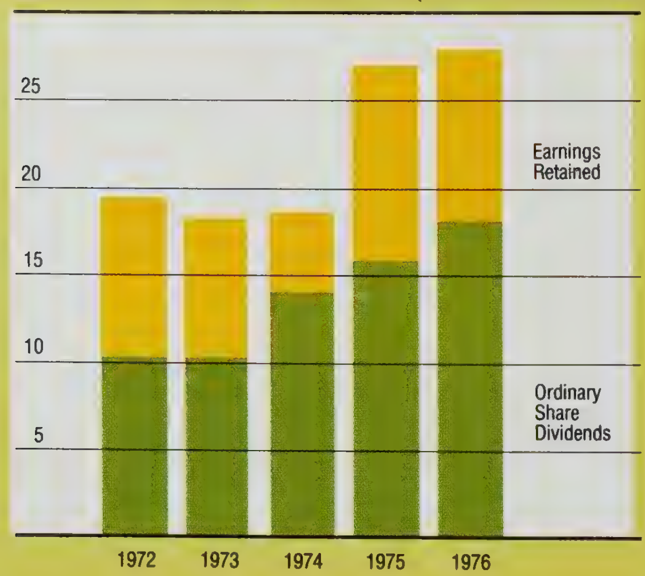
CONSOLIDATED FIVE-YEAR RECORD OF PROGRESS

● GROSS REVENUE (Millions of dollars)



▲ OPERATING EXPENSES (Millions of dollars)

■ ORDINARY SHARE EARNINGS (Millions of dollars)

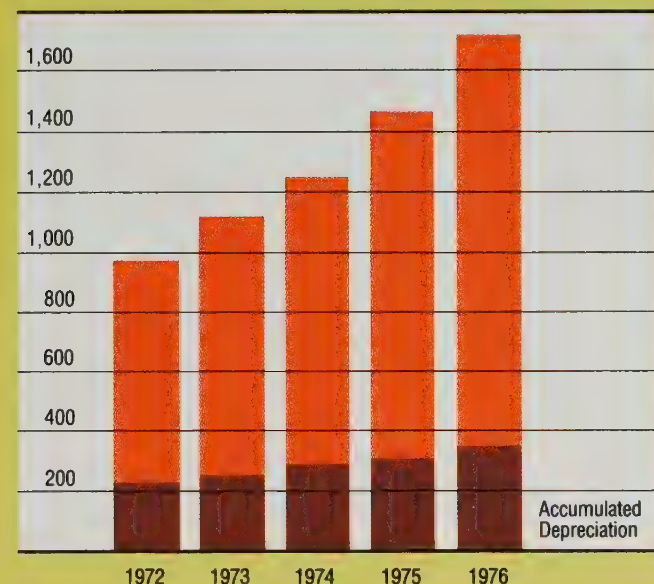


	PARTICULARS		1976
	Selected Income Items (Thousands of dollars)		
●	1 Total operating revenues	$	435,839
	2 Local service		187,694
	3 Toll service		235,813
▲	4 Total operating expenses		349,041
	5 Salaries and wages		147,870
	6 Other operations expense		60,009
	7 Depreciation		83,195
	8 Provincial, municipal and other taxes		22,064
	9 Income Taxes		35,903
	10 Interest and other deductions		55,776
	11 Preference and preferred dividends		12,931
■	12 Ordinary share earnings		27,785
	13 Ordinary share dividends		18,079
	Selected Balance Sheet Items (Thousands of dollars)		
♦	14 Investment in telephone plant		$1,727,567
	15 Accumulated depreciation		350,700
	16 Total invested capital		1,174,800
	17 Long-term debt		626,835
	18 Preference and preferred shares		201,234
	19 Ordinary share equity		248,351
	Financial Ratios		
	20 Earnings per ordinary share	$	1.48
	21 Dividends declared per ordinary share	$	.96
	22 Equity per ordinary share	$	13.19
	23 Percent return on average ordinary share equity		11.37
	24 Percent return on average invested capital		8.93
	25 Percent long-term debt to total capitalization (permanent and long-term)		58
	Other Statistics		
	26 Telephones in service		1,543,310
	27 Percent DDD		99.6
	28 Net plant investment per telephone	$	882
○	29 Gross plant additions (Thousands of dollars)	$	301,385
	30 Local calls — daily average		8,919,000
□	31 Toll calls completed — daily average		323,000
	32 Total salaries and wages (Thousands of dollars)	$	216,692
	33 Total pensions and related payroll costs (Thousands of dollars)	$	25,931
	34 Number of employees		13,749
	35 Number of shareholders		27,639

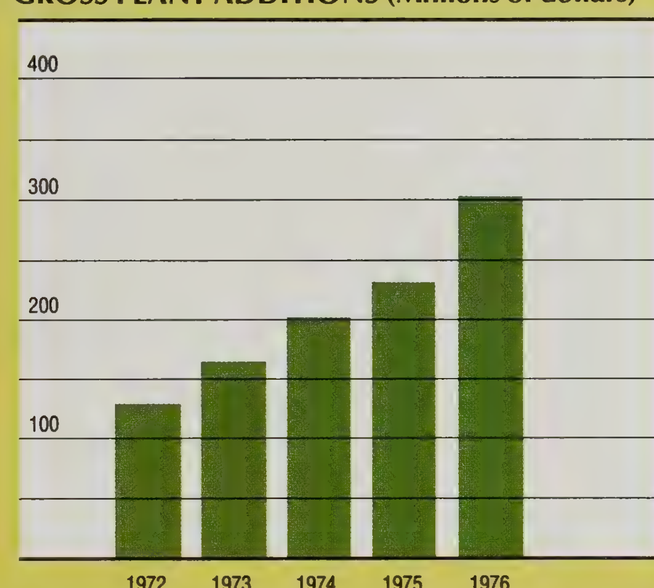
Lines 20, 21, 22 have been restated for the years 1972-1974 to reflect the five-for-one share split, effective April 1, 1975.

975	1974	1973	1972
60,687	$ 302,873	$ 258,927	$ 227,765
54,956	129,197	117,469	106,289
94,905	163,256	132,659	114,742
86,070	243,130	207,197	180,305
20,456	106,931	86,348	73,819
50,277	43,220	37,861	34,189
65,914	56,094	49,380	43,326
17,694	13,669	10,513	8,849
31,729	23,216	23,095	20,122
47,365	39,341	29,855	24,756
8,023	6,204	5,798	5,098
26,859	18,756	18,768	19,762
15,819	14,150	10,357	10,357
73,731	$1,277,588	$1,105,167	$ 961,490
10,303	275,088	246,356	219,229
21,007	889,058	762,125	674,916
49,120	429,259	417,455	377,529
45,600	118,800	103,500	103,500
39,161	228,921	201,846	193,432
1.43	$ 1.11	$ 1.16	$ 1.22
.84	$ .84	$ .64	$ .64
12.70	$ 12.16	$ 12.47	$ 11.95
11.62	8.97	9.54	10.48
8.62	7.87	7.73	7.82
59	55	58	56
73,183	1,383,202	1,281,655	1,180,338
99.6	99.6	94.4	92.5
790	$ 725	$ 670	$ 629
30,241	$ 201,484	$ 165,273	$ 132,405
12,000	8,707,000	7,865,000	7,364,000
85,000	251,000	199,000	172,000
80,511	$ 159,069	$ 125,607	$ 103,245
17,875	$ 14,795	$ 11,433	$ 9,461
13,122	13,999	13,128	10,816
25,047	22,631	23,474	24,362

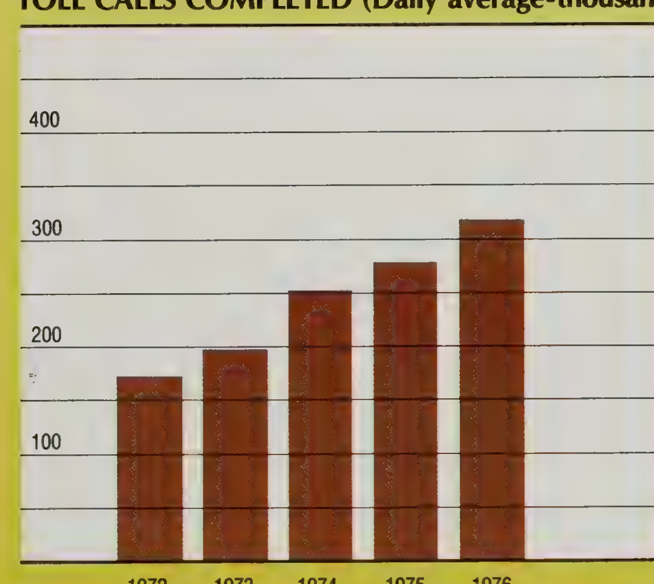
♦ PLANT INVESTMENT (Millions of dollars)



○ GROSS PLANT ADDITIONS (Millions of dollars)



□ TOLL CALLS COMPLETED (Daily average-thousands)



SELECTED INFORMATION FOR ORDINARY SHAREHOLDERS

Principal Ownership

The Company's outstanding ordinary shares totalled 18,833,607 as at December 31, 1976. Anglo-Canadian Telephone Company, a subsidiary of General Telephone & Electronics Corporation of Stamford, Connecticut, owns 9,570,420 shares, or 50.82% of the total.

Market Trading

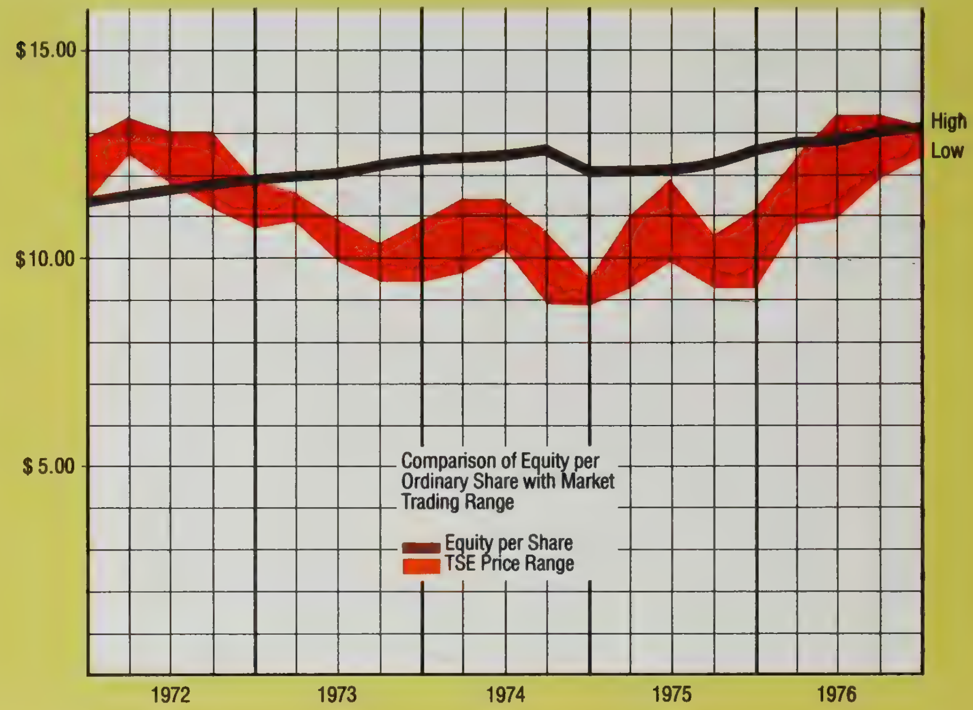
Shares are listed for trading on the Toronto, Montreal and Vancouver stock exchanges. During 1976, a total of 686,000 shares were traded in Toronto; another 328,430 shares and 229,385 shares were traded in Montreal and Vancouver, respectively.

Dividends

In 1976, the Company increased its quarterly dividend on ordinary shares from $.21 to $.25, effective in the second quarter. Dividends for the year totalled $.96, payable quarterly on the first days of January, April, July and October.

Conversion

The $2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares are convertible into ordinary shares of the Company at any time prior to the close of business on June 30, 1986, on the basis of two ordinary shares for each convertible preferred share. As at December 31, 1976, 681 such shares had been converted into 1,362 ordinary shares.



	1976		1975	
Number of Ordinary Shareholders	**5,839**		5,651	
Number of Shares Outstanding at December 31	**18,833,607**		18,832,245	
Distribution of Shares:				
Canada	**99.2%**		99.1%	
United States	**.4**		.5	
Other	**.4**		.4	
	100.0%		100.0%	
Federal Government Valuation Day Value	**$12.75/Share**			
Volume of Shares Traded	**1,243,815**		953,592	
Price Ranges (High-Low)				
Vancouver Stock Exchange				
First Quarter	**$12.50-**	**11.00**	$10.88-	10.20
Second Quarter	**13.50-**	**11.50**	11.75-	10.25
Third Quarter	**13.13-**	**12.25**	10.50-	9.50
Fourth Quarter	**13.25-**	**12.63**	11.00-	9.50
The Toronto Stock Exchange				
First Quarter	**$12.50-**	**10.88**	$11.05-	9.35
Second Quarter	**13.50-**	**11.00**	12.00-	10.00
Third Quarter	**13.50-**	**12.13**	10.63-	9.38
Fourth Quarter	**13.25-**	**12.50**	11.25-	9.38
Montreal Stock Exchange				
First Quarter	**$12.50-**	**10.80**	$11.00-	9.50
Second Quarter	**13.50-**	**11.25**	11.50-	10.00
Third Quarter	**13.38-**	**12.00**	10.38-	9.50
Fourth Quarter	**13.25-**	**12.50**	11.00-	9.38

Note: Volume of shares traded and price ranges have been restated where necessary to reflect the five-for-one share split, effective April 1, 1975.

DIRECTORS

Gordon F. MacFarlane
Chairman and
Chief Executive Officer*
British Columbia Telephone Company
Vancouver, B.C.

Harry M. Boyce
Company Director
Vancouver, B.C.

W. Thomas Brown
Chairman
Odlum Brown & T. B. Read Ltd.
Vancouver, B.C.

Justin V. Harbord
President
Harbord Insurance Ltd.
Victoria, B.C.

Gerald H. D. Hobbs
President
Cominco Ltd.
Vancouver, B.C.

Allan M. McGavin
Chairman of the Board
McGavin ToastMaster Limited
Vancouver, B.C.

Victor F. MacLean
Company Director
Vancouver, B.C.

John W. Pitts
Chairman and President
Okanagan Helicopters Ltd.
Vancouver, B.C.

J. Ernest Richardson
Chairman of the Board
MacMillan Bloedel Ltd.
Vancouver, B.C.

Horace B. Simpson
Vice-President
Okanagan Holdings Ltd.
Kelowna, B.C.

Hugh R. Stephen
Company Director
Victoria, B.C.

**Effective February 10, 1977*

OFFICERS

Gordon F. MacFarlane
Chairman and
Chief Executive Officer*

Gilbert F. Auchinleck
Vice-President — Network Services

Roland J. Bouwman
Vice-President, General Counsel and Secretary

Jack C. Carlile
Vice-President — Operations

Leo J. Dooling
Comptroller

Terence F. Heenan
Vice-President — Administration

James A. MacInnes
Vice-President — Marketing

D. Barry McNeil
Vice-President —
Supply, Transportation and Buildings

Betty J. Rumford
Assistant Secretary

Gordon M. Smith
Vice-President — Revenue Requirements

Robert H. Stevens
Vice-President — Customer Service

J. Neil Stewart
Treasurer

Frank S. Tucker
Vice-President —
Personnel and Industrial Relations

Gerald G. Washington
Assistant Treasurer

Head Office
768 Seymour Street
Vancouver, B.C.
Canada V6B 3K9

Transfer Agent and Registrar
Montreal Trust Company

Duplicate Annual Reports
Every effort has been made to eliminate duplications in our shareholders' mailing list. However, if you have more than one holding you will receive a separate report for each registration unless your shares are registered under exactly the same name.

1976

B.C. Tel, part of
Trans-Canada
Telephone System

B.C. TEL

Government's Anti-Inflation Guidelines, as understood at that time. Authorization for the full amount of the increases was obtained on May 21 and revised rates were implemented on June 11, 1976.

Application for a general rate increase was filed by Okanagan Telephone Company on June 3 with the Motor Carrier Commission of British Columbia. The proposed rates will result in rates comparable with those charged subscribers of B.C. Telephone for equivalent service. A hearing on the application has been set for September 13.

ANTI-INFLATION LEGISLATION: The Company is subject to the restraints on profit margins, dividends and employee compensation as imposed by anti-inflation legislation introduced in October, 1975. The Company believes that the results of its operations since the effective date of this legislation are within the prescribed limitations. On May 25, 1976 amendments to the anti-inflation regulations were proposed by the Federal Government. Application of restraint with respect to profit margins is the responsibility of the CRTC and the Company is unable to determine at this time the manner in which the regulations will be applied and the effects on its operations.

However, in order to finance its essential construction program, the Company must achieve a rate of return on invested capital sufficient to attract the required funds. To that end the Company is seeking regulatory interpretation within the intent of anti-inflation restraint which will recognize the nature of a regulated public utility and its requirements for external funding.

B.A. Beneteau

Chairman, President and Chief Executive Officer

Vancouver, B.C.
August 6, 1976

B.C. TEL

768 Seymour Street, Vancouver, B.C., Canada

Printed in Canada

BRITISH COLUMBIA TELEPHONE COMPANY

Quarterly Report to Shareholders
for the period ended June 30, 1976

BRITISH COLUMBIA TELEPHONE COMPANY

CONSOLIDATED STATEMENT OF EARNINGS

(Subject to audit and year-end adjustment)

	Three Months Ended June 30			*Six Months Ended June 30*		
	1976	**1975**	**1974**	**1976**	**1975**	**1974**
	Thousands of Dollars			*Thousands of Dollars*		
Operating revenues	$ 107,386	$ 85,569	$ 75,554	$ 210,951	$ 167,412	$ 145,597
Operating expenses	77,481	62,973	55,397	152,249	125,670	107,451
Net operating earnings before income taxes	29,905	22,596	20,157	58,702	41,742	38,146
Other income (net)	2,334	1,776	1,191	4,340	3,064	2,187
	32,239	24,372	21,348	63,042	44,806	40,333
Interest and other deductions	13,885	11,431	9,567	26,985	22,339	18,352
Net earnings before income taxes	18,354	12,941	11,781	36,057	22,467	21,981
Income taxes (Note 1)	8,600	6,062	5,822	17,003	10,402	10,877
Net earnings	9,754	6,879	5,959	19,054	12,065	11,104
Dividends on preference and preferred shares	2,645	1,817	1,445	5,196	3,643	2,900
Net earnings available for ordinary shares	$ 7,109	$ 5,062	$ 4,514	$ 13,858	$ 8,422	$ 8,204
Earnings per average ordinary share outstanding during period (Note 2)	$ .38	$ .27	$ .28	$ .74	$ .45	$ .51

Notes:

(1) Restated for 1974, to include the effect of the 10% Corporate Surtax effective in 1974.

(2) Earnings per average ordinary share for the periods shown have been restated to reflect the five-for-one share split, effective April 1, 1975. Full conversion of the $2.32 Convertible Subordinate Preferred Shares has no dilutive effect on the per share earnings for the period ended June 30, 1976.

BRITISH COLUMBIA TELEPHONE COMPANY

CONSOLIDATED STATEMENT OF SOURCE OF FUNDS USED FOR CONSTRUCTION

(Subject to audit and year-end adjustment)

	Six Months Ended June 30 1976	1975
	Thousands of Dollars	
SOURCE OF FUNDS		
From Operations		
Ordinary share earnings	$ 13,858	$ 8,422
Add back expenses not requiring an outlay of funds		
Depreciation	38,150	31,516
Income taxes deferred	16,848	10,402
Allowance for funds used during construction	(2,724)	(2,409)
Other	1,979	885
	68,111	48,816
Less — Ordinary share dividends	8,663	7,909
	59,448	40,907
Decrease in working capital	22,647	26,814
Miscellaneous	(725)	729
	81,370	68,450
Financing proceeds, net of related costs and expenses		
Long-term debt	29,564	66,365
Convertible preferred shares	58,851	—
Decrease in short-term notes	(29,732)	(30,493)
	58,683	35,872
	$ 140,053	$ 104,322
CONSTRUCTION EXPENDITURES		
Gross plant additions	$ 143,151	$ 106,476
Less — Salvage value of plant retired	(374)	255
— Allowance for funds used during construction	(2,724)	(2,409)
	$ 140,053	$ 104,322

TO OUR SHAREHOLDERS:

The improved operating results of the first quarter continued into the second quarter. While anticipating that a recovery phase may be beginning for business in general, the Company continued to hold the line on expenses in the face of economic and regulatory uncertainties.

EARNINGS: Operating revenues of $107,386,000 in the second quarter were 25.5% more than in the corresponding 1975 period. The gain was in large measure attributable to the general rate increase approved in November, 1975 and implemented in two stages on January 1 and June 11, 1976, augmented by increases in long distance telephone rates between Canada and the United States in April. A gain of close to 6%, on an annual basis, in the number of telephones served during the period also contributed to the revenue increase for the quarter, as did the stimulus to long distance calling provided by the Canadian airport tie-up in the month of June.

As noted in the report for the first quarter, the Company's negotiated wage level for 1976 is primarily responsible for this year's increase in operating expenses. Second quarter total operating expenses of $77,481,000 were 23.0% more than for the corresponding period of 1975. In addition to the impact of higher wages, increased expenses are attributable to increases in property taxes, pension costs and depreciation on plant and equipment.

This year's record construction program in combination with higher interest rates on borrowed funds resulted in interest and other deductions increasing to $13,885,000 for the three months ended June 30, up 21.5% over the same three-month period of 1975.

The provision for income taxes for the quarter, which were affected by greater revenues and the increase in the provincial tax rate from 13% to 15%, was 41.9% higher than for the same period in 1975 and amounted to $8,600,000 as compared to $6,062,000.

Dividends of $2,645,000 on the Company's preference and preferred shares include provision for the 10.16% Preferred Shares issued in September, 1975. The resulting net earnings available for ordinary shares for the quarter totalled $7,109,000, or 38 cents per average ordinary share outstanding, compared with $5,062,000, or 27 cents per average share in the second quarter of 1975.

SERVICE DEVELOPMENT: The lower rate of gain in total telephones in service in the second quarter resulted in a gain of 14,363, as compared with 18,931 during the second quarter of 1975. However, the total gain of 32,440 this year to date has increased the total telephones in service as at June 30 to 1,505,623.

Gross plant additions during the quarter amounted to $79,522,000, to bring capital spending this year to date to $143,151,000, as compared with 1975 totals of $55,765,000 and $106,476,000, respectively.

In another area of service development, three digit (911) calling to summon emergency fire, police and ambulance assistance was inaugurated on May 1 by the City of Vancouver.

FINANCING: The Company has successfully completed a rights offering to ordinary shareholders for 2,354,030 Convertible Subordinate Preferred Shares with a par value of $25 and an annual dividend of $2.32. Terms of the issue included the right to purchase one convertible preferred share at $25 for each eight ordinary shares held. Following a public hearing held in Victoria on May 26, 1976 before the Canadian Radio-television and Telecommunications Commission ("CRTC") which assumed responsibility for regulating the Company from the Canadian Transport Commission ("CTC") on April 1, 1976, and upon approval of the CRTC to proceed, the Company received subscriptions for over 99% of the shares offered, with the balance purchased by the underwriters. At any time on or before June 30, 1986, each convertible preferred share is convertible into two ordinary shares of the Company.

An issue of first mortgage bonds is contemplated later in the year to complete the 1976 long-term financing program.

REGULATION: Long distance telephone rates between Canada and the United States were increased on April 17, 1976, following approval of applications to the CTC by the Company and Bell Canada, the two federally regulated member companies of the Trans-Canada Telephone System. The overall impact of the rate changes wil be a 4.5% increase in net revenues from calls between the two countries.

It was noted in the last quarterly report that the Company had applied to the CTC on February 16, 1976 for approval to implement in full the rate increases originally approved by the CTC in November, 1975 but reduced pursuant to the Federal